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May 25, 1982

**MEMORANDUM TO:** Mr. Kevin J. Burns, Assistant Director  
Insurance Programs  
U. S. Office of Personnel Management  
Washington, D. C. 20415

**SUBJECT:** Audit Adjustment to the 1974/1975 Administrative Costs of  
the Government Employees Health Association Health Plan  
(GEHA) \$3,496

**ATTACHMENTS:** EXHIBITS - A, D(r), F.1, F.2 & F.3

Dear Mr. Burns:

This is to advise you that the adjustment of \$3,496 to the administrative costs of GEHA per EXHIBIT - A and your Audit Report No. E-80-005 dated 9-5-80, was neither available until October 31, 1980; nor was it included in an Annual Accounting Statement since that date.

However, at the close of 1977, we revised our accounting system, which produced retro-active adjustments totalling \$2,691 to all costs charged to the Plan subsequent to 1973. These adjustments included those of your Auditors' Informal Inquiries and were reported as prior year adjustments to our Annual Accounting Statement for 1978 (EXHIBIT -F.1, & F.3).

The Audit Report adjustment of \$3,496 consists of \$2,039 for 1974 and \$1,457 for 1975. This is \$3,806 less than that which was included in the 1978 prior year adjustment (EXHIBIT - D(r); \$7,302 less \$3,496).

In recognition of the above comments, the Plan's Annual Accounting Statement for 1982 should show a prior year adjustment of \$3,806 together with other prior year adjustments as may be required (EXHIBITS -C(r) & F.2).

Sincerely,

Harris W. Havard  
Comptroller

HWH:bmw

ATTACHMENTS

cc: Government Employees Health Association

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J O S E P H     E .     J O N E S     A G E N C Y  
F E D E R A L   E M P L O Y E E S   H E A L T H   B E N E F I T S   P L A N S   ( F E H B P )

A D J U S T M E N T S   T O   A D M I N I S T R A T I V E   C O S T S  
F o r   t h e   C a l e n d a r   Y e a r s   E n d e d   D e c e m b e r   3 1 ,   1 9 7 4 / 1 9 7 5

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Name of Plan: Government Employees Health Association

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Account Classifications	Adjustments Charged Per Audit Inquiries	Adjustments per Audit Report but not Charged	(Over) Under Charged
<u>1 9 7 4</u>			
Depreciation	\$ -0-	\$ 251	\$( 251)
Miscellaneous	99	-0-	99
Other Expense	1 202	-0-	1 202
Rent	2 014	1 495	519
Telephone & Telegraph	425	293	132
Word Processing (Dicto)	229	-0-	229
<u>TOTALS</u>	<u>\$ 3 969</u>	<u>\$ 2 039</u>	<u>\$ 1 930</u>
<u>1 9 7 5</u>			
Depreciation	\$ -0-	\$ 222	\$( 222)
Miscellaneous	-	-	-
Other Expense	63	-0-	63
Officers Salaries	1 361	-0-	1 361
Postage	34	-0-	34
Printing	128	-0-	128
Rent	1 092	991	101
Telephone & Telegraph	644	244	400
Word Processing (Dicto)	11	-0-	11
<u>TOTALS</u>	<u>\$ 3 333</u>	<u>\$ 1 457</u>	<u>\$ 1 876</u>
<u>GRAND TOTALS</u>	<u>\$ 7 302</u>	<u>\$ 3 496</u>	<u>\$ 3 806</u>

N O T E: Overhead is included in each of the figures.

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(5/19/82)

EXHIBIT - D(r)

*ATTACH 2 of 2*

Approved For Release 2006/11/28 : CIA-RDP86-00964R000200070018-0

JOSEPH E. JONES AGENCY AND AFFILIATES  
REPORT ON THE FEDERAL EMPLOYEES' HEALTH BENEFITS PLANS OPERATIONS

ADJUSTMENTS TO COSTS INCURRED DURING THE CALENDAR YEARS 1974 THROUGH 1977

	TOTAL EXPENSE	A F S P A	A F G E	G E H A		N A P F E
				Active	Retired	
1974 - Charged Ratios	\$ 423,447 (1.0000)	\$ 118,555 (.2761)	\$ 175,944 (.4261)	\$ 13,336 (.0315)	\$ 69,125 (.1594)	\$ 46,487 (.1069)
Adjustment	5,437	(140)	6,803	174	(761)	( 639)
Chargeable 1/	\$ 428,884	\$ 118,415	\$ 182,747	\$ 13,510	\$ 68,364	\$ 45,848
1975 - Charged Ratios	\$ 470,927 (1.0000)	\$ 135,742 (.2735)	\$ 171,755 (.3971)	\$ 9,220 (.0196)	\$ 89,571 (.1804)	\$ 64,639 (.1294)
Adjustment	12,510	(3,522)	20,218	255	(2,359)	( 2,082)
Chargeable 1/	\$ 483,437	\$ 132,220	\$ 191,973	\$ 9,475	\$ 87,212	\$ 62,557
1976 - Charged Ratios	\$ 759,652 (1.0000)	\$ 98,306 (.1294)	\$ 183,104 (.2410)	\$ 9,225 (.0121)	\$ 72,791 (.0958)	\$ 396,226 (.5216)
Adjustment	32,050	4,148	7,725	389	3,071	16,717
Chargeable 2/	\$ 791,702	\$ 102,454	\$ 190,829	\$ 9,614	\$ 75,862	\$ 412,943
1977 - Charged Ratios	\$1,610,243 821	\$ 92,786 (3,627)	\$ 206,651 (6,839)	\$ 9,341 (3)	\$ 75,862 (1,909)	\$1,225,603 13,199
Adjustment						
Chargeable 2/	\$1,611,064	\$ 89,159	\$ 199,812	\$ 9,338	\$ 73,953	\$1,238,802
Allocation Ratios	100.00	5.53	12.41	.58	4.59	76.89
TOTAL ADJUSTMENTS BY PLANS	\$ 50,818	\$ (3,141)	\$ 27,907	\$ 815	\$ (1,958)	\$ 27,195

1/ Allocations of costs to each of the plans for 1974 and 1975 include adjustments by the United States Civil Service Commission (USCSC) audit; and the additional costs caused the revision of our accounting methods and procedures. The percentage of each plan's original costs (as adjusted) to the total costs was used as the basis for allocation.

2/ Allocation of costs to each of the plans for 1976 and 1977 were made under the revised methods and procedures.

NOTE: All of the adjustments for 1974 and 1975 recognized the USCSC audit findings of 1977.

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JOSEPH E. JONES AGENCY  
FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

EXHIBIT - F.2 of 3

ADJUSTMENTS TO ADMINISTRATIVE COSTS  
For the Calendar Years Ended December 31, 1974/1975

ACCOUNTS	Original Total Costs	Adjmts Per Inquiries	Costs Adjusted Per Inq.	Agency's Revisions	Revised Total Costs	Adjmts Per Audit Report	Costs Adj. Per Audit Report Col.1 less 6	Agency's Revisions	Revised Total Costs	Over (Under) Charge Col.5(-)9
1974	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Depreciation	2297		2297	612	2909	(1477)	820	612	1432	1477
Management Fee										
Miscellaneous		(519)	(519)	519		(131)	(131)	519	388	(388)
Office Expense	10042		10042	7958	18000		10042	7958	18000	
Other Expense	60000	(66298)	(6298)	48011	41713		60000	(11989)	48011	(6298)
Rent	29538	(10560)	18978	(798)	18180	(7747)	21791	(798)	20993	(2813)
Tel & Tel	13055	(2225)	10830	3320	14150	(1726)	11329	3320	14649	(499)
Word Proc. (Dicto)	4192	(1189)	3003	(3003)			4192	(3003)	1189	(1189)
Sub Total	119124	(80791)	38333	56619	94952	(11081)	108043	(3381)	104662	(9710)
All Other Costs	304323		304323	29609	333932		304322	29610	333932	
TOTAL COSTS	423447	(80791)	342656	86228	428884	(11081)	412365	26229	438594	(9710)
1975										
Depreciation	1922		1922	598	2520	(1154)	768	598	1366	1154
Management Fee										
Miscellaneous						(45)	(45)		(45)	45
Office Expense	8668		8668	6117	14785		8668	6117	14785	
Other Expense	60000	(60317)	(317)	42365	42048		60000	(17635)	42365	(317)
Officers Salaries		(6804)	(6804)	40488	33684			40488	40488	(6804)
Postage	14354	(169)	14185	2205	16390		14354	2205	16559	(169)
Printing	3584	(641)	2943	(2943)			3584	(2943)	641	(641)
Rent	30323	(5459)	24864	(3542)	21322	(6158)	24165	(3542)	20623	699
Tel & Tel	12293	(3222)	9071	1274	10345	(1577)	10716	1274	11990	(1645)
Word Processing	3343	(55)	3288	(3288)			3343	(3288)	55	(55)
Sub Total	134487	(76667)	57820	83274	141094	(8934)	125553	23274	148827	(7733)
All Other Costs	336440		336440	5903	342343		336440	5903	342343	
TOTAL COSTS	470927	(76667)	394260	89177	483437	(8934)	461993	29177	491170	(7733)
TOTAL UNDERCHARGE										(17443)

5/19/82

REVISED (3/23/79)

EXHIBIT - F.3

3 of 3

JOSEPH E. JONES AGENCY AND AFFILIATES  
REPORT ON THE FEDERAL EMPLOYEES' HEALTH BENEFITS PLANS OPERATIONS  
For the Calendar Year Ended December 31, 1978

1. REVISION OF ACCOUNTING SYSTEM

During May of 1977, while auditing the Agency's books of account relative to the Federal Employees' Health Benefits Plans (FEHBP) operations, representatives of the U.S. Civil Service Commission (USCSC) recommended that the accounting system be reviewed with a view toward its improvement. In consonance with the recommendation this was accomplished toward the latter part of 1977. The analysis of the review formed the basis for adoption of new methods and procedures in the process of collecting, analyzing, summarizing, distributing and allocating costs.

2. ADJUSTMENTS TO COSTS FOR THE CALENDAR YEARS 1974 THRU 1978

As a consequence of the revised methods and procedures, it was necessary to adjust costs that were originally charged to the FEHBP as of the close of each of the calendar years 1974 thru 1978. These adjustments recognized those of the USCSC auditors' findings for the 1974 and 1975 periods.

a. Adjustments to Each Year's Total Costs

<u>Year</u>	<u>Original Billing</u>	<u>Revised Billing</u>	<u>Increase</u>
1974	\$423 447	\$428 884	\$ 5 437
1975	470 927	483 437	12 510
1976	759 652	791 702	32 050
1977	1610 243	1611 064	821
TOTALS	\$3264 269	\$3315 087	\$ 50 818

b. Adjustments Applicable to Each Plan

<u>Year</u>	<u>Total Costs</u>	<u>AFCE</u>	<u>AFSPA</u>	<u>GEHA</u>	<u>NAPFE</u>
1974	\$ 5 437	\$ 6 803	\$ ( 140)	\$ ( 587)	\$ ( 639)
1975	12 510	20 218	( 3 522)	( 2 104)	( 2 082)
1976	32 050	7 725	4 148	3 460	16 717
1977	821	( 6 839)	( 3 627)	( 1 912)	13 199
TOTALS	\$ 50 818	\$ 27 907	\$ ( 3 141)	\$ ( 1 143)	\$ 27 195

3. ADD 1978 COSTS

855 158	449 503	226 396	176 950	2 309
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4. TOTALS

\$905 976	\$477 410	\$223 255	\$175 807	\$ 29 504
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REPORT OF AUDIT  
Government Employees Health Association, Inc.

For the Period  
1 January 1981 - 31 December 1981

SUMMARY

1. The Government Employees Health Association, Inc. (GEHA) continues to be administered in an efficient manner. Administrative controls, procedures and records were generally effective and in accordance with applicable requirements. Three of the prior year audit recommendations concerning investment performance have not been completely resolved. These are commented on again in this report. Minor administrative matters were discussed with responsible officers and resolved during the audit.

SCOPE AND OPINION

2. We have examined the GEHA statement of financial position as of 31 December 1981 and the related statements of changes in reserve fund balances and changes in financial position. The examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures by GEHA, as we considered necessary under the circumstances.



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3. In our opinion, the above mentioned financial statements, Exhibits A, B, and C, present fairly the financial position of GEHA at 31 December 1981 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

#### BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Branch of the Benefits and Services Division in the Office of Personnel. GEHA reimburses the Agency for the services of  employees in the Insurance Branch.

5. GEHA maintains about  insurance accounts for active and retired employees. The following plans are in effect:

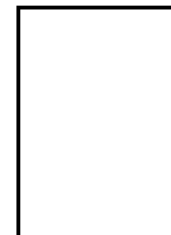
#### PLANS

##### Life Insurance:

United Benefit Life Insurance Company  
Active  
Retired

Worldwide Assurance for Employees  
of Public Agencies

#### ACCOUNTS



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25X1

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PLANSACCOUNTSHealth Insurance:

Association Benefit Plan  
 Active  
 Retired

Contract Hospitalization

Specified Diseases

Disability Insurance:

Income Replacement

Accidental Death and Dismemberment Insurance:

Flight and Accident

Travel Insurance:

Air Flight

Military Air Flight

25X1

FINANCIAL INFORMATION

6. During 1981, the Association Benefit Plan (hospitalization) received subscription income of \$17.8 million, paid out benefits of \$18.1 million, and incurred <sup>NET</sup> ~~not~~ operating expenses of \$1.2 million for a net underwriting loss of \$1.5 million.

*This loss was offset by a reserve held by the Plan that resulted from previous surpluses.*  
 GEHA has reduced certain benefits (as mandated by the Office of Personnel Management) <sup>for all plans participating in the FEHB Program</sup> and increased premiums for 1982 to bring the program back on a self-sustaining basis. The activity of the other insurance programs managed by GEHA are shown in the attached financial statements.

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AUDIT COMMENTS

Investment Performance

7. The prior report of audit contained three recommendations concerning management of GEHA's investment portfolio by BEA Associates, an investment management firm. These recommendations were:

That the GEHA Board of Directors re-evaluate and document GEHA's investment objectives.

That the GEHA Board of Directors consider whether dealing through other investment broker(s), adopting an alternate means of handling investments, might be more advantageous than current arrangements, and that it document both the decisions and the basis on which they are made.

That the GEHA Board of Directors establish a written policy concerning the holding of fixed income securities which have declined in current market value but are yielding a high rate of return, and that the policy determined be issued as mandatory guidance to any entity executing investment decisions on behalf of GEHA.

8. The GEHA Board of Directors has appointed an Investment Committee which hired an outside consultant  to assist in the review and evaluation of GEHA's investment policy and BEA's performance. This committee has had

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meetings with BEA and with [ ] has requested and received additional data from BEA for analysis and comment

STAT by [ ] and <sup>is</sup> has <sup>INT</sup> scheduled a meeting of the Board of Directors, BEA representatives, and [ ] <sup>to review all appropriate materials</sup> in June 1982. <sup>for June/July 1982</sup>

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These actions should provide the Board of Directors with the information necessary to comply with the cited recommendations.

Recommendation: Take action to resolve prior year audit recommendations.

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Exhibit A

Government Employees Health Association, Inc.  
Statement of Financial Position  
31 December 1981 and 1980

	<u>ASSETS</u>	<u>1981</u>	<u>1980</u>
Cash	\$	241,902	\$ 454,446
Investments (Note 1)		4,782,454	4,426,411
Claims Receivable		244,836	80,137
Contingent Assets:			
Funds Withheld by Underwriter for Specified Policyholders		139,666	154,666
Less: Reserves		(139,666)	(154,666)
Equipment (Net of Depreciation)		<u>1,734</u>	<u>2,312</u>
Total Assets		<u>\$5,270,926</u>	<u>\$4,963,306</u>

LIABILITIES AND RESERVES

Accounts Payable	\$	27,389	\$ 6,796
Prepaid Premiums		181,205	180,357
Accrued Salaries		49,951	24,543
Accrued Dependent Premiums		<u>17,941</u>	<u>16,804</u>
Total Liabilities		276,486	228,500
Reserves (Exhibit B)		<u>4,994,440</u>	<u>4,734,806</u>
Total Liabilities and Reserves		<u>\$5,270,926</u>	<u>\$4,963,306</u>

NOTE 1: Investments are recorded at cost, market value at 31 December 1981 was \$4,373,300 and at 31 December 1980 was \$4,250,700.

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Government Employees Health Association, Inc.  
Statement of Changes in Reserve Fund Balances  
For the Year Ended 31 December 1981

	<u>Total</u>	<u>UBLIC Investment in Common Stock</u>	<u>UBLIC General</u>	<u>Association Benefit Plan</u>	<u>Air Flight Plan</u>	<u>Contract Hospital- ization</u>	<u>General Fund</u>
Balance, 1 January 1981	\$4,734,806	\$378,258	\$3,855,560	\$332,239	\$30,825	\$77,660	\$60,264
Increases:							
Premiums Withheld from or Returned by Underwriter	649,357		194,721	444,942	695	8,999	
Investment Income	558,764	75,469	462,996		3,722	9,328	7,249
Gain on Sale of Stock	122,459	122,459					
Miscellaneous	978						978
Total Increases	<u>1,331,558</u>	<u>197,928</u>	<u>657,717</u>	<u>444,942</u>	<u>4,417</u>	<u>18,327</u>	<u>8,227</u>
Decreases:							
Salaries	527,676		19,956	492,096	3,125	12,499	
Premiums for UBLIC Dependent Coverage	43,031		43,031				
Loss on Sale of Bonds	441,439		422,898		3,399	8,520	6,622
Investment Fees and Expenses	48,639	15,759	31,499		253	635	493
Miscellaneous	11,139		2,000	5,813			3,326
Total Decreases	<u>1,071,924</u>	<u>15,759</u>	<u>519,384</u>	<u>497,909</u>	<u>6,777</u>	<u>21,654</u>	<u>10,441</u>
Balance, 31 December 1981	<u>\$4,994,440</u>	<u>\$560,427</u>	<u>\$3,993,893</u>	<u>\$279,272</u>	<u>\$28,465</u>	<u>\$74,333</u>	<u>\$58,050</u>

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Government Employees Health Association, Inc.  
Statement of Changes in Financial Position  
For the Year Ended 31 December 1981

## Resources Provided by:

Sale of Investments	\$13,923,816
Claims Reimbursed by Underwriters:	
Hospitalization	9,750,711
Death	606,254
*Premiums from Policyholders	1,124,115
Premiums from Underwriters	649,357
Interest Income	483,295
Dividend Income	75,469
Decrease in Cash	212,544
Increase in Accounts Payable	47,138
Miscellaneous	978
	<u>\$26,873,677</u>

## Resources Applied to:

Purchase of Investments	\$14,598,839
Claims Paid to Policyholders:	
Hospitalization	9,915,410
Death	606,254
*Premiums Paid to Underwriters	1,166,298
Salaries Paid	527,676
Investment Fees and Expenses	48,639
Miscellaneous	10,561
	<u>\$26,873,677</u>

\* Does not include premiums of \$17.8 million for Associated Benefit Plan which are withheld by payroll and passed through GEHA to Mutual of Omaha.

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~~ADMINISTRATIVE~~

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*Private File*

17 May 1982

MEMORANDUM FOR: Chief, Claims   
FROM: Chief, Insurance Branch  
SUBJECT: Check Writing Procedure

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1. It has come to my attention that for checks that are to be forwarded through the U.S. Postal Service, our procedures do not include the typing of a payee on the "pay to the order" line of the checks. Rather, for expedience, the payee is included below that line as part of the mailing address. This apparently has been in effect for sometime as a method of ensuring that the total address appears in the 'windowed' part of the envelope which we use for such mailing.

2. Putting the payee below the appropriate line on the check, creates the possibility that someone other than the payee could insert a different name on the "pay to the order" line and then cash the check without serious difficulty. To alleviate this possibility, please bring this issue to the attention of your people and instruct them that, in addition to typing the name with the address, they should also type the payee name on the appropriate line of the check.



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~~ADMINISTRATIVE~~ = INTERNAL USE ONLY

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